

Work From Home Business Deductions

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When it comes to a home business, or even telecommuting from the home, the tax question is one that most of us dread. Taxes are complicated and not filing them correctly can lead to a lot of trouble and headaches. Fortunately, for the home worker, there is an upside to the tax issue, and that is business deductions. Many people are surprised by the things they can deduct as business expenses for their home office. Keep in mind that this list of items you can deduct from your taxes is not comprehensive, and also that deduction laws may vary state-to-state and even in different municipalities. The best resource for finding out for sure what you can deduct will be your accountant or other financial advisor.

Your Home Office

The area where you work in your home is considered your home office by you, but is it considered as such by the IRS? In order to qualify for deductions such as a percentage of your mortgage payment or your utilities, the IRS has stated that the area you use for work must meet four different criteria. First of all, the area must be used exclusively for business. This means that if you have a home office in your bedroom, you are not eligible for the deduction as you also sleep there. A kitchen may be used for a home catering business, but if it is also used for family cooking it is not eligible for deductions. The exceptions to this rule are spaces used for storing inventory and in the case of a day care facility.

If your office space meets the exclusive use criteria, you must then determine if it also meets the regular use area. You must use the space on a regular basis in order to qualify. The last two qualification areas are primary place of business (it is the main area you work out of) and business use. If you meet all four requirements, you are eligible for partial deductions on your home office, usually determined by the relation of the square footage of the area to that of your home.

Automobile Deductions

The use of your vehicle in your capacity as a person who works from home is another area that is not as straightforward as it might at first appear. The easiest formula to follow is the mileage formula, whereby the IRS allows a person to deduct a figure in cents for every mile for business travel. It is important therefore that you keep track of how many miles you travel in one year for business purposes.

Health Insurance

This is a very important area for the home business owner. The IRS will allow you to deduct up to 100% of your health insurance if you are self-employed. Check out the details according to the kind of business you run, and remember that if the remainder costs more than 7.5% of your gross income, you can deduct the excess amount as well.

Depreciation

Unless you are just starting out your business in the current tax year, you cannot deduct the full amount of purchases made for your business. Instead, you will have to use a formula to determine the depreciation of items purchased for your business such as computers and vacuum cleaners.

Remember that cheaper equipment like keyboards and a mouse should be tacked onto office supplies instead of office equipment.

What You Can't Deduct

People greatly abused the business deduction program for a long time, and as a result the IRS introduced much stricter rules when it came to what you cannot deduct from home business expenses. The basic rule of thumb here is that you cannot deduct anything related to vacations or celebration expenses such as weddings, funerals, and divorces. These were the areas that were most commonly abused under the old laws, and thus were subjected to blanket exclusions under the new ones.

Some other common areas when it comes to deductions are those for office supplies, professional charges (including legal and financial charges) and membership charges that pertain to the business.